

## DEVELOPMENT OF LAWS ON ISLAMIC FINANCE IN THE LEGISLATION OF UZBEKISTAN

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ABSTRACT	KEYWORDS
The article discusses the legal framework for organizing and coordinating the activities of Islamic finance organizations in Uzbekistan, the content and essence of regulatory legal documents adopted in the field of Islamic finance, and the processes of their implementation in practice.	Islamic finance, legal framework, microfinance organizations, Islamic Corporation for the Development of the Private Sector, digital banks.

### Introduction

The Islamic financial system, which has formed as an important branch of the global banking and financial system, is becoming stronger year by year. In a short period, the volume of the global Islamic banking and financial system has increased from 758 billion US dollars (2007) to 4.2 trillion US dollars (2023)[1]. This system is developing rapidly and is projected to reach 5.9 trillion dollars by 2026. The increase in Islamic finance flows makes it necessary for most countries to conduct a rational investment policy aimed at attracting them on a large scale. For this, it is important to study the trends in the development of the Islamic finance market.

In recent years, special attention has been paid to the formation and development of Islamic finance in the Republic of Uzbekistan. For this purpose, our President Shavkat Mirziyoyev has assigned several tasks to the relevant ministries and organizations. Among them, one of the most important primary tasks is to amend and supplement the legislative framework to implement Islamic finance.

### Material and Methods

The problems of Islamic economics and finance have been studied in the works of foreign scholars Abu Yusuf, A. Mirakhor, H. Ahmad, M. Iqbal, T. Usman, M. Qaradogiyi. Scientists who conducted research in the field of Islamic economics and finance are Sheikh Muhammad Sodiq Muhammad Yusuf, U. Alimov, S. Abrorov, A. Tursunov, R. Abdullaev, S.Dusanov, A.Abdullah, Kh.Khasanov, O. Davlatyarov, T. Boboqulov, B.Juraev and others are among them[2].

The Saudi researcher of Pakistani origin, Muhammad Umar Chapra, defined the concept of Islamic economics as follows: “... Islamic economics is a set of knowledge that helps to achieve human well-being through the distribution of limited resources in accordance with the teachings of the Islamic

religion, while preventing excessive restrictions on individual freedom and persistent macroeconomic and ecological imbalances [3].” Thus, the researcher associates Islamic economics with knowledge that leads to prosperity, individual freedom, stable macroeconomics, and ecological balance. This description can be considered one of the appropriate definitions given to Islamic economics.

## Results and Discussion

The primary condition for the implementation of Islamic financial instruments and products in Uzbekistan is the adoption of relevant laws and, where necessary, the adaptation of some existing laws and by-laws to the implementation of Islamic financial instruments and products. Without this, it is difficult to implement Islamic finance.

Projects based on Islamic financing in Uzbekistan The implementation started in 2004 and this Uzbekistan joined the Islamic Development Bank in September 2003. In 2004, the Islamic Development Bank (IDB) approved a loan in the energy and health sectors. "Ijarah" and "Murabahah" contracts have been used to finance projects in the storage sector. However, ITB has been operating in Uzbekistan since the early days of independence. This grant was launched in 2001 and is part of a program to support Muslim communities in non-member countries. demonstrated in the implementation of projects.

Currently, Uzbekistan is a member of the Islamic Development Bank. In addition, it is also a member of the Islamic Corporation for the Development of the Private Sector (ICDC). Corporation IDB group and has received more than 350 million dollars from it The Corporation has been approved to finance projects. The Corporation mainly uses “murabaha” financing in its operations in the country. uses the method. When it comes to Islamic financing, it is worth mentioning the foreign enterprise "Taiba Leasing", established by the ISLAMIC in Tashkent in 2010. This leasing company provides leasing services to legal entities in Uzbekistan in full compliance with Sharia.

As a result of three years of discussions in Uzbekistan, the Central Bank Board adopted a resolution “On approval of the Regulation on the procedure for the provision of Islamic financing services by microfinance organizations”[4]. The Regulation was registered by the Ministry of Justice on July 26, 2024 under No. 3536. This Regulation was developed on the basis of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards for Islamic financing, as well as taking into account advanced foreign experience and the national context, and is the main legal document determining the procedure for the provision of Islamic financing services by microfinance organizations. The Regulation consists of 4 chapters and 93 articles.

The regulation establishes general requirements that microfinance organizations must comply with when providing Islamic financing services.

It is stipulated that microfinance organizations must establish a special council to coordinate Islamic finance issues in order to provide Islamic financing services, or they may outsource its activities.

At the same time, it is noted that if microfinance organizations provide other traditional services in accordance with the legislation, in addition to Islamic financing services, separate accounting must be maintained for the activities of this microfinance organization related to the provision of Islamic financing services.

In addition, this regulation sets out the requirements for the special council and its members, as well as Islamic financing services such as Islamic leasing, profit-sharing financing (muzarabah), loan-based

financing (murabaha), partnership financing (musharaka), and prepayment financing (salam) and the requirements for the provision of these services.

Adopted Statute 2022 It complies with the requirements of the Law No. O'RQ-765 "On Non-Bank Credit Organizations and Microfinance Activities", adopted on April 20 [5].

This law is the first in Uzbekistan to use the term "Islamic financing services", meaning that it states that microfinance organizations and business entities have the right to provide Islamic financing services.

According to the adopted regulation, duly registered (i.e. official) microfinance organizations will be able to provide financial services to the population and business entities based on the principles of Islamic finance.

The regulation defines concepts related to Islamic finance.

They are:

- 1) Islamic leasing is the transfer of non-consumable items (property) purchased by a microfinance organization at the request of a client or on its balance sheet to the client for temporary possession and (or) use for an agreed period.
- 2) Special Council for Coordination of Islamic Finance Issues - a special council responsible for the provision of Islamic financing services provided by a microfinance organization in accordance with the requirements of legislative documents and these Regulations.
- 3) credit-based financing (murabaha) - financing a client by selling goods to a creditor, including the purchase price of the goods and a mark-up amount, by a microfinance organization.
- 4) prepayment-based financing (salam) – financing a client by prepaying the full amount of the future goods delivered to the supplier (client) of these goods by a microfinance organization.
- 5) profit-sharing financing (muzorab) - financing of a client by allocating funds to the client's commercial activities in order to receive a profit by a microfinance organization;
- 6) partnership - financing based on the sharing of profits and losses (musharaka) - financing of a client by a microfinance organization through the implementation of commercial activities (partnership) together with one or more participants (clients) or participation in the authorized capital of legal entities.

A microfinance organization shall establish a special council for the provision of Islamic financing services. A microfinance organization may, by decision of the general meeting of participants (shareholders), engage a special council established under associations or unions specializing in the field and consisting of members meeting the requirements established by this Regulation on a contractual (outsourcing) basis. In this case, the microfinance organization shall be responsible for managing the risks associated with the activities of the engaged special council.

The microfinance organization shall submit information on the establishment of a special council or changes in its composition to the Central Bank within 10 business days from the date of these actions, attaching the relevant resolution of the general meeting of participants (shareholders) and documents confirming the compliance of the chairman and members of the special council with the requirements established in Chapter 2 of the Regulations.

The functions of the Special Council are as follows:

-review and approval of draft model contracts, internal documents and reports related to the implementation of Islamic financing services by a microfinance organization;

-ensure compliance of Islamic financing services provided by a microfinance organization with legislative documents and the requirements established in the standards for the implementation of Islamic financing, and submit periodic reports to the governing bodies of the microfinance organization on the results of the assessment of compliance;

-Assist the management and executive bodies of microfinance organizations through their conclusions and instructions in implementing a risk management and internal control system related to Islamic financing services.

The third chapter of the regulation is entitled "Provision of Islamic Financing Services" and sets out the principles for providing Islamic financing (murabaha) services based on Islamic trade.

The trade-based financing service is provided by a microfinance organization based on a relevant application from the client. In the application, the client may indicate the name of the trade-based object, the approximate price at which he agrees to purchase it, as well as the terms of purchase.

The client, in agreement with the microfinance organization, can designate a seller from whom the national commercial object can be purchased.

If other sellers have more favorable offers for the purchase of the national commercial object, the microfinance organization has the right to independently choose the seller.

A microfinance institution may require the client to make a down payment in the form of cash on a national trade item.

The deposit is accepted by the customer as part of the payments that must be returned within the framework of the sale.

The microfinance organization for the sale of a commodity assumes all risks associated with the purchase and delivery of the commodity to the client.

A microfinance organization is prohibited from charging brokerage fees and other types of fees to clients for providing a national trading service.

Monetary funds (currency), crypto-assets, gold and silver cannot be traded.

This chapter also defines the provision of Islamic leasing services, the provision of Islamic leasing services based on the condition of later purchase of the leased object (ijara muntahiya bittamlik), the provision of financing services based on prepayment (salam), the provision of financing services based on profit sharing (muzaraba), and the provision of financing services based on partnership - profit and loss sharing (musharaka).

Partnership - a financing service based on the sharing of profits and losses, in which a microfinance organization and its clients contribute a certain amount of money or, by mutual agreement, tangible assets to a joint activity without forming a legal entity, or as a share in the capital of a legal entity.

Within the framework of a partnership, partners may agree to transfer the right to manage the partnership's activities to several partners or to a single partner.

The distribution of profits between the microfinance organization and clients should not be tied to expected future income and expenses and should be based on the actual financial results of the activity.

The fourth chapter of the Regulation is called "Final Provisions" and stipulates that disputes arising between a microfinance organization and its clients will be resolved in accordance with the procedure established by law.

In addition, the adopted Regulation does not provide information or understanding about the profit tax and VAT (value added tax) that microfinance organizations will receive. Because VAT is very

important in the purchase and sale process of an Islamic financial institution. They will have to pay VAT when financing their clients based on the Murabaha transaction, which is most commonly used in Islamic finance.

**Conclusion.** It should be noted that work on creating a regulatory and legal framework that will allow for the implementation of an Islamic banking and financial system began in the first quarter of 2022 within the framework of technical assistance from the Islamic Development Bank worth 265 thousand US dollars [6].

In this way, three important results can be achieved at once: firstly, to start providing services to individuals and legal entities who want to conduct their activities in accordance with the principles of Islamic finance; secondly, to show other participants in the financial market the possibilities in this regard, thereby giving impetus to the increase in the types of financial products and services and increasing competition in the financial market; thirdly, to train specialists in the field from a practical point of view, since today there are practically no specialists with practical experience in this area in Uzbekistan (since such specialists have not been trained so far).

Of course, Islamic finance products and services exist not only in traditional forms, but also in digital-innovative forms. Based on this, the factors attracting investments for the development of this direction in Uzbekistan are as follows:

1. Strengthening innovation (i.e. developing and implementing new innovative solutions) to ensure sustainable development;
2. Focus on industry regulation and coordination:

Research by the Bank for International Settlements (BIS) has shown that fintechs attract more investment in countries with higher levels of regulation and coordination[7]. However, the study also shows that while more than 60 countries have established a “regulatory sandbox” to date, very few of them are members of the Organization of Islamic Cooperation. Of course, weak regulatory mechanisms also deter investors from investing in this high-risk sector.

3. Support the development of Islamic venture funds (i.e. funds for financing high-risk projects). Because venture funds can make a significant contribution to the development of innovative business solutions /projects. The importance of venture funds in financing fintech startups (startups - projects at the initial calculation and pilot stage or even at the idea level) is very great. Because such funds provide financial support to startups at the initial stage, they give great moral strength to the initiators of innovative business projects/ideas.

Participation in special government grant programs, establishing relationships with local and foreign business incubators, business angels, and other fintechs can greatly contribute to the development of Islamic fintechs.

When it comes to economic development , the main challenge is meeting the financial needs of businesses, a problem that has been recognized by the United Nations as one of the biggest challenges facing the Sustainable Development Goals.

Therefore, the first and most important issue on the path to achieving a prosperous economy is to increase financial literacy. According to the Organization for Economic Cooperation and Development (OECD), financial literacy is a key factor leading to economic growth, sustainable development, and financial stability.

Today, Islamic finance assets are worth \$3.6 trillion, but literacy in the field of Islamic finance is low.



In the last year or two, several digital banks (TBC, Uzum and Anor banks) and various financial platforms have started their activities in Uzbekistan. In particular, Islamic fintechs are also gradually starting to operate. One of these fintechs, IMAN invest, is among the 375 Islamic fintechs listed in The Global Islamic Fintech Report 2022.

Due to the large population of Uzbekistan, various external participants are interested in and entering its financial market. Previously, Georgia's TBC Bank, Hungary's OTP Group, and Tajikistan's Alif financial fintech company have entered the Uzbek market and have been able to significantly expand their activities.

In particular, the Alif company has become quite popular among the population, offering products and services that comply with the principles of Islamic finance. This can be seen as another proof of the high interest of the population in Islamic finance products.

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